Manulife Securities

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THE BOTTOM LINE

the latest trends, ideas, and news from the financial industry

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"The most successful people are those who are good at Plan B" - James Yorke

Economic Update

After a rather robust stock market rally through the last quarter of 2009 and the first quarter of 2010, stock markets around the world stalled a bit through May and June to finish the quarter down on a year-to-date basis. This was not unexpected. After trillions of dollars were pumped into the system in late 2008 and throughout 2009, the government taps were reduced to a trickle, and while the world averted a potential depression by virtue of ferocious government spending, the economy is looking weaker than many expected. In fact, the fall off has been so quick that there are now concerns that a "double-dip" recession may be imminent.

Amongst developed nations, the U.S. was expected to provide one of the strongest rebounds in GDP growth with consensus forecasts of 2.5% for 2010. New Home sales in the U.S. dropped 33% in April, while auto sales fell just as dramatically (down 34%). In addition, the unemployment rate has remained stubbornly high at the 9.7% level. All of this will likely lead to slower growth in the second half of the year, and weaker 2011 forecasts.

Meanwhile, the debt hangover remains, albeit, in a shuffled form. Going into the recession, consumer-debt levels were high, driven mostly by real-estate-related borrowings. Mortgage relief has meant that some of what was originally on the consumer's balance sheet has now shifted to government balance sheets. Poorly managed financial institutions have also seen an improvement in their financials at the expense of governments.

We continue to expect a muted global economic recovery. In Canada, a more favorable environment is viewed with skepticism. An anemic global recovery cannot help but impact our resource sector, and eventually, the highly-indebted Canadian consumer will also retrench. April GDP growth was flat, with retail sales declining 2%. The abrupt slowdown is dismissed by some. But, if the Canadian economy is dependent on trade, it is not insulated from global trends.

Dividend yields now exceed bond yields in some sectors of the market, which would generally indicate a compelling argument for owning equities. However, if economic growth turns negative and corporate earnings decline, then dividends could be at risk and share prices may fall further. Our preference is to own the more stable earning companies - primarily in non-cyclical sectors - where dividend coverage is strong, and earnings are much more resilient to any potential recession.

In Other News

Effective July 1, 2010, the much reviled Harmonized Sales Tax (HST) came in to effect in both BC and Ontario. There is still much confusion over exactly what impact the HST will have on the economy and the prices we pay for goods and services. Opponents often look at the short-term effects, arguing correctly, that consumers face an immediate increase in the cost of many formerly exempt goods and services such as: haircuts, bicycles, restaurant meals, and health club memberships.

GIC INTEREST RATES 2010 (%) **

	APR	MAY	JUNE
1 YR	2.05	2.0	1.85
3 YR	3.35	3.1	3.0
5 YR	3.9	3.7	3.6

ANNUALIZED RATES OF RETURN TO JUNE 30, 2010 (%) ***

CDN$	1 YR	3 YR	5 YR
TSX	12.0	-3.9	5.5
S&P 500	14.4	-9.8	-0.8
TSX DEX	6.9	6.9	4.9
*EAFE	-2.7	-13.0	-1.5

* Europe, Australia, & Far East Index
** Source: GICInvest.net
*** Morningstar

There is also a concern that the HST will have long-term effects on service-based industries as a result of a decrease in consumer spending and because businesses will not adjust their prices to included the added savings (many in an effort to offset the decrease in consumption). Proponents agree that prices will increase in the short-term, but argue the HST will ultimately lead to an increase in investment, which in turn will mean more jobs and a stronger provincial economy in the future. The HST will stimulate the economy and make provinces more competitive by eliminating the retail sales tax that is currently hidden in the costs of goods purchased by businesses. Top economists around Canada support the HST arguing that sales tax harmonization is proven to stimulate investment and will lead to long-term economic growth.

While the jury remains out on exactly what impact the HST will have, we do know that there will be an increase in the Investment Management fees charged on all mutual funds, "Fee-for-Service" type portfolios, and on annual Trustee fees. While generally small, these increased costs can certainly be categorized as a nuisance! Most people will see the effect of the higher costs in September when the annual RRSP Trustee Fee is withdrawn from your account.

Should I pay down my MORTGAGE, pay up my RRSP, or start a TFSA?

One of the biggest questions of financial planning is whether to invest for the future in an RRSP or reduce debt by paying down the mortgage. The new Tax-Free Savings Account (TFSA) brings a new dimension to this long-standing debate. It's good to know your options, but it's best to begin all financial decision-making by thinking about your personal goals. Your goals will help determine the right answer for you.

First, let's look at how the Tax Act treats your home, RRSP, and TFSA:

Tax Treatment	RRSP	TFSA	Principal Residence
How is money that is paid treated?	Deductible from taxable income	After-tax dollars	After-tax dollars
Is there a dollar limit?	Yes, up to $21,000 or 18% of earned income in 2009	Yes, maximum in 2009 is $5,000	No dollar limit
Is there a maximum age limit?	Yes. Must convert at age 71	No	No
How is investment growth treated?	Not taxed as long as it is not paid out	Not taxed at all	Not taxed at all
How is money that is paid out treated?	Added to your taxable income	Tax-free	Tax-free

The new TFSA is taxed the same way as your principal residence: you don't get a tax break on the money you put in, but the value created will never be taxed.

Real estate is not very liquid. Buying a house takes a bit of time and is done for many reasons besides investment considerations. Getting into an RRSP or TFSA does not involve a large upfront amount of money.

Withdrawing money from an RRSP or TFSA may involve fees and penalties, but you can usually get at your money in a few days. Although, to get at the money invested in your home can mean selling the property or borrowing against it. Nowadays, most mortgage lenders are happy to arrange a home equity line of credit which makes cash as accessible as your bank account or credit card.

Most investments held in RRSP's and TFSA's involve fees – explicit or implicit. For example, the average annual MER for a mutual fund is in the 2% range. There are also costs when purchasing a home and setting up a mortgage, and of course interest is not deductible. Other ongoing costs such as heating, hydro, and home insurance apply whether you rent or own, so they should not be considered as "costs" of the investment - you'd have to pay them anyway.

Home ownership is easy to understand, it is tangible and local. We can see with our own eyes what determines the value of a property and how it can change over time. You live in your home. You can't live inside an RRSP or a TFSA. You can improve your home's value directly by doing renovations. Try that with a mutual fund or a GIC inside your RRSP or TFSA! And finally, you don't have to sell it to enjoy it. So what is the best thing to do? It depends. Call us and we will help you make the right decision for you!

Around the Office

Peter Graham and his lovely wife, Amy, are pleased to announce the birth of their first child, Nolan Ian Graham, born Monday July 19, 2010. Weighing in at 7 lbs 11 oz, both mom and son are handling the shock very comfortably. Peter, being the huge baseball fan he is, obviously had some input into the naming process and pitching lessons begin next week! Congratulations to you both!

Having just announced Jenna as the newest member to the team we regret that she suffered a severe case of home sickness and returned to her native Calgary shortly after our last missive. In her stead, we are thrilled to introduce you to Heather MacIntosh who has joined your roadmapforsuccess.ca team effective in July and the early returns on Heather are fabulous. We know you will like her as much as we do when you get a chance to say hello. Heather will be providing administrative and client relationship support to all members of the team.

Group RSP Members - Can we help you?

In addition to providing individual wealth management and planning, our team services numerous group RSP and pension plans. In fact, many of our individual clients were once part of a group savings plan that we manage. Over the years we have been successful in maximizing the value of group plans through employee education, advice, evaluation, pricing, and overall plan governance and monitoring. If you are a member of a group plan that we do not manage, please let us know. We would be happy to see if we can make the most of your plan.

If you like our service, please let others know. The greatest measure of our success is the referrals we receive from our clients.